

# **Pinecrest Medical Care Facility**

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**Financial Report  
with Additional Information  
December 31, 2013**

# **Pinecrest Medical Care Facility**

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## Independent Auditor's Report

To the Board of Trustees  
Pinecrest Medical Care Facility

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of Pinecrest Medical Care Facility (the "Facility"), a joint venture between Delta, Dickinson, and Menominee Counties, Michigan, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Pinecrest Medical Care Facility as of December 31, 2013 and 2012 and its changes in financial position and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Pinecrest Medical Care Facility

***Emphasis of Matter***

As discussed in Note 1, during the year ended December 31, 2013, Pinecrest Medical Care Facility adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified on pages 3 to 6, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Pinecrest Medical Care Facility's basic financial statements. The combining statement of net position, combining statement of revenue, expenses, and changes in net position, schedule of net service revenue, and schedule of operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Plante & Morse, PLLC*

March 14, 2014

# **Pinecrest Medical Care Facility**

## **Management's Discussion and Analysis**

Our discussion and analysis of Pinecrest Medical Care Facility's (the "Facility") financial performance provides an overview of the Facility's financial activities for the fiscal years ended December 31, 2013 and 2012. Please read it in conjunction with the Facility's financial statements, which begin on page 7.

### **Financial Highlights**

- The Facility's net position decreased by \$847,054 in 2013 and increased by \$229,987 in 2012.
- The Facility reported an operating loss in 2013 of \$863,460 and an operating income in 2012 of \$112,774.
- Nonoperating income decreased by \$100,807 compared to 2012. Nonoperating income increased in 2012 by \$13,109 compared to 2011.

### **Using this Annual Report**

The Facility's financial statements consist of three statements - a statement of net position, a statement of revenue, expenses, and changes in net position, and a statement of cash flows. These financial statements and related notes provide information about the activities of the Facility, including resources held by the Facility.

### **The Statement of Net Position and Statement of Revenue, Expenses, and Changes in Net Position**

Our analysis of the Facility's finances begins on page 4. One of the most important questions asked about the Facility's finances is, "Is the Facility as a whole better or worse off as a result of the year's activities?" The statement of net position and statement of revenue, expenses, and changes in net position report information about the Facility's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Facility's net position and changes in them. You can think of the Facility's net position as the difference between assets and deferred outflows to liabilities and deferred inflows and as one way to measure the Facility's financial health, or financial position. Over time, increases or decreases in the Facility's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Facility's resident base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Facility.

### **The Statement of Cash Flows**

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?," "What was cash used for?," and "What was the change in cash balance during the reporting period?"

# Pinecrest Medical Care Facility

## Management's Discussion and Analysis (Continued)

### The Facility's Net Position

The Facility's net position is the difference between assets and deferred outflows to liabilities and deferred inflows reported in the statement of net position on page 7. The Facility's net position decreased in 2013 and increased in 2012, as you can see from Table 1.

**Table 1 - Assets, Liabilities, and Net Position**

|                            | 2013                 | 2012                 | 2011                 |
|----------------------------|----------------------|----------------------|----------------------|
| <b>Assets</b>              |                      |                      |                      |
| Current assets             | \$ 4,003,519         | \$ 3,953,025         | \$ 3,246,466         |
| Assets limited as to use   | 4,344,953            | 4,314,228            | 4,242,683            |
| Property and equipment     | 10,671,579           | 11,257,444           | 11,850,990           |
| Total assets               | 19,020,051           | 19,524,697           | 19,340,139           |
| <b>Current Liabilities</b> | 1,732,323            | 1,389,915            | 1,435,344            |
| <b>Net Position</b>        |                      |                      |                      |
| Invested in capital assets | 10,671,579           | 11,257,444           | 11,850,990           |
| Unrestricted               | 6,616,149            | 6,877,338            | 6,053,805            |
| Total net position         | <u>\$ 17,287,728</u> | <u>\$ 18,134,782</u> | <u>\$ 17,904,795</u> |

Significant components of the decrease in the Facility's assets at December 31, 2013 include the increase in the bad debt allowance of \$270,000, which increased to compensate for identified uncollectible resident accounts receivable balances identified by aging balances and overall increase in resident accounts receivable balances. Also, property and equipment declined because annual depreciation expense was recorded without a corresponding reinvestment in capital assets. The increase in current liabilities is due to an estimated settlement of \$220,000 to be paid to Medicaid for cost report and quality assurance supplement settlements.

### Operating Results and Changes in the Facility's Net Position

In 2013, the Facility's net position decreased by \$847,054 as shown in Table 2. Net service revenue decreased by \$589,908 from 2012. This is reflective of a declining long-term medical care facility census at Pinecrest Medical Care Facility, yet Whispering Pines continues to show clientele increases, which helps to mitigate the Pinecrest Medical Care Facility declines. There was a decrease in ancillary revenue of approximately \$90,000 and an increase in the Facility's bad debt expense of approximately \$360,000. Included at December 31, 2013 is an estimated current liability of \$220,750 for cost report and quality assurance supplement settlements owed to Medicaid. Operating expenses increased due to fringe benefit costs and Whispering Pines service expenses. Little Pines Day Care closed as of September 30, 2013.

# Pinecrest Medical Care Facility

## Management's Discussion and Analysis (Continued)

**Table 2 - Operating Results and Changes in Net Position**

|  | 2013                 | 2012                 | 2011                 |
|--|----------------------|----------------------|----------------------|
| <b>Operating Revenue</b>                   |                      |                      |                      |
| Net service revenue                        | \$ 13,583,465        | \$ 14,173,373        | \$ 13,210,145        |
| Quality assurance supplement               | 1,514,425            | 1,578,891            | 1,411,260            |
| Other operating revenue                    | 26,708               | 28,713               | 25,770               |
| Total operating revenue                    | 15,124,598           | 15,780,977           | 14,647,175           |
| <b>Operating Expenses</b>                  |                      |                      |                      |
| Salaries                                   | 9,406,529            | 9,244,859            | 8,967,330            |
| Other expenses                             | 6,581,529            | 6,423,344            | 6,476,740            |
| Total operating expenses                   | 15,988,058           | 15,668,203           | 15,444,070           |
| <b>Operating (Loss) Income</b>             | (863,460)            | 112,774              | (797,316)            |
| <b>Nonoperating Income</b>                 | 16,406               | 117,213              | 104,104              |
| <b>(Decrease) Increase in Net Position</b> | (847,054)            | 229,987              | (693,212)            |
| <b>Net Position - Beginning of year</b>    | 18,134,782           | 17,904,795           | 18,598,007           |
| <b>Net Position - End of year</b>          | <b>\$ 17,287,728</b> | <b>\$ 18,134,782</b> | <b>\$ 17,904,795</b> |

### Operating Losses

The first component of the overall change in the Facility's net position is its operating income (loss) which is generally the difference between net resident service revenue and the expenses incurred to perform those services. In 2013, the operating loss was \$863,460, compared to operating income in 2012 of \$112,774, a negative change of \$976,234. In 2012, the operating income was \$112,774, compared to operating loss in 2011 of \$797,316, a positive change of \$910,090.

# **Pinecrest Medical Care Facility**

## **Management's Discussion and Analysis (Continued)**

The primary components of the operating loss earned in 2013 are as follows:

- Decrease in total net service revenue, which includes bad debt expense as a reduction of net service revenue, as previously discussed
- Medicaid cost report and quality assurance supplement revenue settlements resulting in a liability and reduction in net service revenue, as previously discussed
- Facility operating expenses remained consistent compared to 2012 outside of fringe benefit increases and increased cost due to providing services to the increasing Whispering Pines clientele. Operating expenses were able to be contained due to daily monitoring by management, department managers, and staff.
- Great Northern Health Care experienced rapid growth, causing an increase in revenue and related expenses, particularly client care payroll expenses.

### **Nonoperating Revenue and Expenses**

Nonoperating revenue consists primarily of the Order of St. Francis (OSF) rental income, interest revenue, and investment earnings. The Facility investment portfolio sustained a loss of approximately \$187,000 due to declines in the bond market.

### **The Facility's Cash Flows**

Changes in the Facility's cash flows are consistent with changes in operating losses and nonoperating revenue and expenses, discussed earlier.

### **Capital Assets**

At December 31, 2013, 2012, and 2011, the Facility had net investment in capital assets of \$10,671,579, \$11,257,444, and \$11,850,990, respectively. In 2013, the Facility purchased new equipment, building improvements, renovated the administrator's house, and renovated the Whispering Pines Willow Creek home totaling \$486,720. In 2012, the Facility purchased new equipment, building improvements, and renovated the old doctor's residence and related parking lot totaling \$403,041. In 2011, the Facility purchased new equipment, building improvements, and renovated the old doctor's residence and related parking lot totaling \$273,162.

### **Debt**

During the years ended December 31, 2013 and 2012, the Facility had no debt.

### **Contacting the Facility's Financial Management**

This financial report is designed to provide our residents, suppliers, taxpayers, and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility's controller's office at Box 603, N15995 Main Street, Powers, MI 49874.



# Pinecrest Medical Care Facility

## Statement of Net Position

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| <b>Assets</b>                                |                      |                      |
| <b>Current Assets</b>                        |                      |                      |
| Cash and cash equivalents (Note 2)           | \$ 1,832,544         | \$ 1,984,072         |
| Resident accounts receivable (Note 3)        | 1,980,943            | 1,649,518            |
| Estimated third-party payor settlements      | -                    | 163,558              |
| Other current assets                         | 190,032              | 155,877              |
| Total current assets                         | 4,003,519            | 3,953,025            |
| <b>Assets Limited as to Use</b> (Note 2)     | 4,344,953            | 4,314,228            |
| <b>Property and Equipment - Net</b> (Note 4) | 10,671,579           | 11,257,444           |
| Total assets                                 | <b>\$ 19,020,051</b> | <b>\$ 19,524,697</b> |
| <b>Liabilities and Net Position</b>          |                      |                      |
| <b>Current Liabilities</b>                   |                      |                      |
| Accounts payable                             | \$ 220,475           | \$ 256,637           |
| Estimated third-party payor settlements      | 220,750              | -                    |
| Accrued liabilities and other:               |                      |                      |
| Accrued compensation and related liabilities | 509,141              | 498,159              |
| Accrued compensated absences                 | 492,626              | 533,686              |
| Other accrued liabilities                    | 289,331              | 101,433              |
| Total current liabilities                    | 1,732,323            | 1,389,915            |
| <b>Net Position</b>                          |                      |                      |
| Net investment in capital assets             | 10,671,579           | 11,257,444           |
| Unrestricted                                 | 6,616,149            | 6,877,338            |
| Total net position                           | 17,287,728           | 18,134,782           |
| Total liabilities and net position           | <b>\$ 19,020,051</b> | <b>\$ 19,524,697</b> |

# Pinecrest Medical Care Facility

## Statement of Revenue, Expenses, and Changes in Net Position

|  | Year Ended           |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2013 | December 31,<br>2012 |
| <b>Operating Revenue</b>                   |                      |                      |
| Net service revenue                        | \$ 13,583,465        | \$ 14,173,373        |
| Quality assurance supplement               | 1,514,425            | 1,578,891            |
| Other operating revenue                    | 26,708               | 28,713               |
| Total operating revenue                    | 15,124,598           | 15,780,977           |
| <b>Operating Expenses</b>                  |                      |                      |
| Salaries                                   | 9,406,529            | 9,244,859            |
| Other expenses                             | 6,581,529            | 6,423,344            |
| Total operating expenses                   | 15,988,058           | 15,668,203           |
| <b>Operating (Loss) Income</b>             | (863,460)            | 112,774              |
| <b>Nonoperating (Loss) Income</b>          |                      |                      |
| Investment (loss) income                   | (120,023)            | 38,350               |
| Contributions                              | 57,243               | 24,941               |
| Other income                               | 33,195               | -                    |
| Rent income                                | 45,991               | 53,922               |
| Total nonoperating (loss) income           | 16,406               | 117,213              |
| <b>(Decrease) Increase in Net Position</b> | (847,054)            | 229,987              |
| <b>Net Position - Beginning of year</b>    | 18,134,782           | 17,904,795           |
| <b>Net Position - End of year</b>          | <b>\$ 17,287,728</b> | <b>\$ 18,134,782</b> |

# Pinecrest Medical Care Facility

## Statement of Cash Flows

|  | Year Ended           |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2013 | December 31,<br>2012 |
| <b>Cash Flows from Operating Activities</b>                                  |                      |                      |
| Cash received from residents and third-party payors                          | \$ 13,636,348        | \$ 13,931,190        |
| Other operating receipts   | 26,708               | 28,713               |
| Cash received from quality assurance supplement                              | 1,514,425            | 1,578,891            |
| Cash paid to employees and suppliers   | (13,720,129)         | (13,356,719)         |
| Cash paid for quality assurance provider tax                                 | (1,107,841)          | (1,125,928)          |
| Net cash provided by operating activities                                    | 349,511              | 1,056,147            |
| <b>Cash Flows from Noncapital Financing Activities -</b>                     |                      |                      |
| Contributions received   | 57,243               | 24,941               |
| <b>Cash Flows from Investing Activities</b>                                  |                      |                      |
| Rental income  | 45,991               | 53,922               |
| Investment (loss) gain   | (120,023)            | 38,350               |
| Proceeds from sale of investments in assets limited as to use                | 1,828,766            | 1,229,547            |
| Purchase of investments in assets limited as to use                          | (1,689,059)          | (1,608,763)          |
| Net cash provided by (used in) investing activities                          | 65,675               | (286,944)            |
| <b>Cash Flows from Capital and Related Financing Activities</b>              |                      |                      |
| Purchase of property and equipment   | (486,720)            | (403,041)            |
| Proceeds from insurance claim  | 33,195               | -                    |
| Net cash used in capital and related financing activities                    | (453,525)            | (403,041)            |
| <b>Net Increase in Cash and Cash Equivalents</b>                             | 18,904               | 391,103              |
| <b>Cash and Cash Equivalents - Beginning of year</b>                         | 3,070,830            | 2,679,727            |
| <b>Cash and Cash Equivalents - End of year</b>                               | <b>\$ 3,089,734</b>  | <b>\$ 3,070,830</b>  |
| <b>Statement of Net Position Classification of Cash and Cash Equivalents</b> |                      |                      |
| Current assets   | \$ 1,832,544         | \$ 1,984,072         |
| Assets limited as to use (Note 2)  | 1,257,190            | 1,086,758            |
| Total cash and cash equivalents  | <b>\$ 3,089,734</b>  | <b>\$ 3,070,830</b>  |

# Pinecrest Medical Care Facility

## Statement of Cash Flows (Continued)

|   | Year Ended           |                      |
|---|----------------------|----------------------|
|   | December 31,<br>2013 | December 31,<br>2012 |
| <b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>  |                      |                      |
| Operating (loss) income   | \$ (863,460)         | \$ 112,774           |
| Adjustments to reconcile operating (loss) income to net cash from operating activities: |                      |                      |
| Depreciation  | 944,991              | 994,484              |
| Bad debts   | 381,363              | 19,810               |
| Loss on disposal of capital assets  | 127,594              | 2,103                |
| Changes in assets and liabilities:  |                      |                      |
| (Increase) decrease in resident accounts receivable                                     | (712,788)            | 106,802              |
| (Increase) decrease in other current assets   | (34,155)             | 29,161               |
| (Decrease) increase in accounts payable   | (36,162)             | 87,813               |
| Change in estimated third-party payor settlements                                       | 384,308              | (368,795)            |
| Increase in other accrued expenses  | 157,820              | 71,995               |
| Net cash provided by operating activities   | <u>\$ 349,511</u>    | <u>\$ 1,056,147</u>  |

There were no significant noncash investing, capital, and financing activities for 2013 and 2012.

# Pinecrest Medical Care Facility

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## Notes to Financial Statements December 31, 2013 and 2012

### Note 1 - Nature of Business and Significant Accounting Policies

Pinecrest Medical Care Facility (the "Facility") is a long-term medical care facility owned and operated jointly by Delta, Dickinson, and Menominee Counties. During 2013, 20 licensed skilled nursing beds were delicensed, shifting from 160 beds during 2012 to 140 beds effective July 1, 2013. The Facility is governed by a nine-member Department of Human Services (DHS) board. This board is made up of six members appointed by participating counties (two each) and three members appointed by the governor of Michigan (one to each county). The Facility provides long-term medical care and assisted living services and accounts for these activities in the following funds: Pinecrest Medical Care Facility and Whispering Pines. Whispering Pines operates six residential care facilities for developmentally disabled adults. Whispering Pines also has a contract with an outside provider to provide community-supported living arrangement programs that provide housekeeping, personal care services, and transportation to developmentally disabled adults and senior citizens living on their own. Whispering Pines also operates an outpatient mental health facility under the name of Powers Activity Center and a private duty home care service under the name of Great Northern Home Care. There are no component units to be included in these financial statements.

**Basis of Presentation** - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility now follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive one-line look at the Facility's financial activities.

**Proprietary Fund Accounting** - The Facility utilizes the proprietary fund method of accounting whereby accounting revenue and expenses are recognized on the full accrual basis.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Cash Equivalents** - The Facility considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, excluding those amounts included in assets limited as to use.

# Pinecrest Medical Care Facility

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## Notes to Financial Statements December 31, 2013 and 2012

### Note I - Nature of Business and Significant Accounting Policies (Continued)

**Accounts Receivable** - Accounts receivable for residents, insurance companies, and governmental agencies are based on net charges. An allowance for uncollectible accounts is established on the Facility's assessment of the current status of individual accounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

**Assets Limited as to Use** - Assets limited as to use primarily include cash and cash equivalents and investments set aside by the DHS boards for future capital improvements, funding of combined time off, and managed care contracting. Investments are recorded at their fair market values. The board retains control and may, at its discretion, subsequently use such assets for other purposes.

**Property and Equipment** - All property and equipment purchases are recorded at historical cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is charged as an expense against operations on a straight-line basis.

**Compensated Absences** - Employees earn benefit days under the Facility's combined time-off policy. The value of the combined time-off is charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

**Resident Funds** - The Facility maintains various bank accounts for deposits and disbursements for the residents' personal expenses. These funds are assets of the residents and are included as an asset and a liability within the financial statements.

**Service Revenue** - The Facility's principal activity is operating a long-term healthcare facility for the elderly. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private-pay residents. Revenue is recorded at standard billing rates and differences between billing rates and amounts paid under these programs are recorded as contractual adjustments. Approximately 81 and 85 percent of the revenue from services is received from the Medicare and Medicaid programs during 2013 and 2012, respectively.

The payment methodology and amounts earned related to these programs are based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review, including a Medicaid cost report settlement liability at December 31, 2013 of \$158,000 reported as an estimated third-party payor settlement payable to the State of Michigan. Adjustments to net service revenue for 2013 and 2012 included a \$152,076 loss and a \$115,311 gain, respectively, for prior year cost report settlements.

# **Pinecrest Medical Care Facility**

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## **Notes to Financial Statements December 31, 2013 and 2012**

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Medicaid reimburses the Facility for resident routine service costs, on a per diem basis, prospectively determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program began for Michigan in 2009. During 2012, Medicaid was required to create a similar RAC program, which creates a similar need for supporting documentation for each Medicaid resident and similar risk of lost reimbursement. The Facility is unable to determine if it will be audited and, if so, the extent of liability for overpayment, if any. If selected for audit, the potential exists for significant overpayment of claims liability for the Facility at a future date.

**Quality Assurance Program** - The Facility's Medicaid revenue has been partially funded by a program called the Quality Assurance Assessment Program (QAAP).

The Facility received Medicaid revenue related to the QAAP of \$1,514,425 and \$1,578,891 based on the number of Medicaid resident days of service provided during the years ended December 31, 2013 and 2012, respectively. The State of Michigan pays facilities based on an estimated number of days of service provided monthly, with settlements provided annually based on actual Medicaid resident days of service. As of December 31, 2013 and 2012, the Facility had estimated settlements of \$62,750 due to the State of Michigan and \$131,747 due to the Facility, respectively.

The Facility was assessed a "provider tax" based on the historical number of non-Medicare resident days of service provided of \$1,107,841 and \$1,125,928 during the years ended December 31, 2013 and 2012, respectively. The State of Michigan bills for the tax on a monthly basis throughout the year without settlement to the actual number of non-Medicare resident days.

# **Pinecrest Medical Care Facility**

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## **Notes to Financial Statements December 31, 2013 and 2012**

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

**Certified Public Expenditures** - In January 2012, the State of Michigan received approval to allow county-owned medical care facilities to receive reimbursement through the Certified Public Expenditures program. The purpose of the program is to assure funding for unreimbursed costs incurred for services to Medicaid beneficiaries. The State of Michigan approval is retroactive to January 1, 2009. During the years ended December 31, 2013 and 2012, the Facility estimated settlement revenue of \$20,219 and \$243,937, included in net service revenue, respectively. As of December 31, 2013, the Facility estimated no settlements. As of December 31, 2012, the Facility had estimated settlements of \$31,811 due to the Facility.

**Operating Revenue and Expenses** - The Facility's statement of revenue, expenses, and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services - the Facility's principal activity. Nonoperating revenue, grants, and contributions received for purposes other than capital asset acquisition are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

**Maintenance of Effort** - Maintenance of effort (M.O.E.) payments are county obligations to the State of Michigan. Every month the State bills the counties, at a per diem rate, for each day a Medicaid resident occupies one of the Facility's 140 beds.

**Net Position** - Net position of the Facility is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital assets.

**New Accounting Pronouncement** - In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 has been implemented for the Facility as of December 31, 2013. The adoption of this new standard did not have a material effect on the Facility's financial statements.



# **Pinecrest Medical Care Facility**

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## **Notes to Financial Statements December 31, 2013 and 2012**

### **Note 2 - Deposits and Assets Limited as to Use**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Facility has designated a bank and a credit union for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Facility's deposits and investment policies are in accordance with statutory authority.

The Facility's cash and assets limited as to use, including investments that are subject to several types of risk, are examined in more detail below.

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that, in the event of a bank or credit union failure, the Facility's deposits may not be returned to it. The Facility does not have a deposit policy for custodial credit risk. At December 31, 2013, the Facility had approximately \$1,487,000 that was uninsured and uncollateralized. The Facility believes that due to the dollar amounts of cash deposits and the limits of insurance provided by the Federal Deposit Insurance Corporation and the National Credit Union Share Insurance, it is impractical to insure all deposits. As a result, the Facility evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Facility's investment policy does not restrict investment maturities.

# Pinecrest Medical Care Facility

## Notes to Financial Statements December 31, 2013 and 2012

### Note 2 - Deposits and Assets Limited as to Use (Continued)

As of December 31, 2013, the Facility had the following assets limited as to use maturities:

|                                    | Fair Market<br>Value | Less Than<br>One Year | 1-5 Years           | 6-10 Years  | More Than<br>10 Years |
|------------------------------------|----------------------|-----------------------|---------------------|-------------|-----------------------|
| Cash and cash equivalents          | \$ 907,190           | \$ 907,190            | \$ -                | \$ -        | \$ -                  |
| Certificates of deposit            | 350,000              | 350,000               | -                   | -           | -                     |
| Total cash and cash<br>equivalents | 1,257,190            | 1,257,190             | -                   | -           | -                     |
| Government agency securities       | 2,816,903            | 451,791               | 2,365,112           | -           | -                     |
| Government securities              | 270,860              | 75,211                | 195,649             | -           | -                     |
| Total                              | <u>\$ 4,344,953</u>  | <u>\$ 1,784,192</u>   | <u>\$ 2,560,761</u> | <u>\$ -</u> | <u>\$ -</u>           |

As of December 31, 2012, the Facility had the following assets limited as to use maturities:

|                                    | Fair Market<br>Value | Less Than<br>One Year | 1-5 Years           | 6-10 Years  | More Than<br>10 Years |
|------------------------------------|----------------------|-----------------------|---------------------|-------------|-----------------------|
| Cash and cash equivalents          | \$ 535,032           | \$ 535,032            | \$ -                | \$ -        | \$ -                  |
| Certificates of deposit            | 551,726              | 551,726               | -                   | -           | -                     |
| Total cash and cash<br>equivalents | 1,086,758            | 1,086,758             | -                   | -           | -                     |
| Government agency securities       | 2,952,131            | 1,166,744             | 1,785,387           | -           | -                     |
| Government securities              | 275,339              | -                     | 275,339             | -           | -                     |
| Total                              | <u>\$ 4,314,228</u>  | <u>\$ 2,253,502</u>   | <u>\$ 2,060,726</u> | <u>\$ -</u> | <u>\$ -</u>           |

# Pinecrest Medical Care Facility

## Notes to Financial Statements December 31, 2013 and 2012

### Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

|   | 2013                | 2012                |
|---|---------------------|---------------------|
| Resident accounts receivable              | \$ 2,485,943        | \$ 1,884,518        |
| Less allowance for uncollectible accounts | (505,000)           | (235,000)           |
| Net resident accounts receivable          | <u>\$ 1,980,943</u> | <u>\$ 1,649,518</u> |

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

|  | Percent    |            |
|--|------------|------------|
|  | 2013       | 2012       |
| Medicare                                 | 9          | 11         |
| Medicaid                                 | 35         | 43         |
| Private skilled nursing                  | 18         | 14         |
| Services provided under Whispering Pines | 18         | 22         |
| Other                                    | 20         | 10         |
| Total                                    | <u>100</u> | <u>100</u> |

# Pinecrest Medical Care Facility

## Notes to Financial Statements December 31, 2013 and 2012

### Note 4 - Property and Equipment

The cost of property and equipment and related depreciable lives for December 31, 2013 are summarized below:

|                                | 2012          | Additions    | Transfers | Retirements  | 2013          | Depreciable<br>Life - Years |
|--------------------------------|---------------|--------------|-----------|--------------|---------------|-----------------------------|
| Land and land improvements     | \$ 22,211     | \$ -         | \$ -      | \$ -         | \$ 22,211     | N/A                         |
| Building                       | 23,987,558    | 265,236      | -         | (68,602)     | 24,184,192    | 10-40                       |
| Equipment                      | 3,497,531     | 220,142      | -         | (19,837)     | 3,697,836     | 4-20                        |
| Construction in progress       | 40,233        | 1,342        | -         | (40,233)     | 1,342         | -                           |
| Total                          | 27,547,533    | 486,720      | -         | (128,672)    | 27,905,581    |                             |
| Less accumulated depreciation: |               |              |           |              |               |                             |
| Building                       | 13,504,311    | 758,512      | -         | -            | 14,262,823    |                             |
| Equipment                      | 2,785,778     | 186,479      | -         | (1,078)      | 2,971,179     |                             |
| Total                          | 16,290,089    | 944,991      | -         | (1,078)      | 17,234,002    |                             |
| Net carrying amount            | \$ 11,257,444 | \$ (458,271) | \$ -      | \$ (127,594) | \$ 10,671,579 |                             |

The cost of capital assets and related depreciable lives for December 31, 2012 are summarized below:

|                                | 2011          | Additions    | Transfers | Retirements | 2012          | Depreciable<br>Life - Years |
|--------------------------------|---------------|--------------|-----------|-------------|---------------|-----------------------------|
| Land and land improvements     | \$ 22,211     | \$ -         | \$ -      | \$ -        | \$ 22,211     | N/A                         |
| Building                       | 23,731,927    | 255,631      | -         | -           | 23,987,558    | 10-40                       |
| Equipment                      | 3,369,748     | 135,410      | -         | (7,627)     | 3,497,531     | 4-20                        |
| Construction in progress       | 30,033        | 12,000       | -         | (1,800)     | 40,233        | -                           |
| Total                          | 27,153,919    | 403,041      | -         | (9,427)     | 27,547,533    |                             |
| Less accumulated depreciation: |               |              |           |             |               |                             |
| Building                       | 12,714,319    | 790,395      | -         | (403)       | 13,504,311    |                             |
| Equipment                      | 2,588,610     | 204,089      | -         | (6,921)     | 2,785,778     |                             |
| Total                          | 15,302,929    | 994,484      | -         | (7,324)     | 16,290,089    |                             |
| Net carrying amount            | \$ 11,850,990 | \$ (591,443) | \$ -      | \$ (2,103)  | \$ 11,257,444 |                             |

During 2013, construction in progress for Whispering Pines Estates was abandoned. The loss of \$40,233 from abandoning Whispering Pines Estates was recorded in other operating expenses.

# **Pinecrest Medical Care Facility**

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## **Notes to Financial Statements December 31, 2013 and 2012**

### **Note 5 - Defined Contribution Pension Plan**

The Facility has three defined contribution plans: two for bargaining unit employees and one for nonbargaining employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Facility contributes 4 percent of employees' gross earnings for licensed practical nurses that is fully vested after 10 years of service, except for licensed practical nurses hired after December 11, 2012, who are eligible after one year of employment to receive a pretax employer contribution equal to \$.35 for each dollar contributed by the employee to the deferred compensation plan up to 10 percent of the employee's annual gross earnings which is fully vested after five years of service, under a collective bargaining agreement. The Facility contributes 2 percent of employees' gross earnings for American Federation of State, County and Municipal Employees (AFSCME) Local 854 members, which becomes fully vested after 10 years of service, except for members hired after August 6, 2012, who are eligible after one year of employment to receive a pretax employer contribution equal to \$.35 for each dollar contributed by the employee to the deferred compensation plan up to 10 percent of the employee's annual gross earnings which becomes fully vested after five years of service, under a collective bargaining agreement. The Facility contributes 9 percent of employees' gross earnings for nonbargaining unit employees, which becomes fully vested after 10 years of service, except for those employees hired after August 10, 2012, who are eligible after one year of employment to receive a pretax employer contribution equal to \$.35 for each dollar contributed by the employee to the deferred compensation plan up to 10 percent of the employee's annual gross earnings which are fully vested after five years of service. In accordance with these requirements, the Facility contributed approximately \$186,000 and \$171,000 during 2013 and 2012, respectively. There were no employee contributions to the plans in either year.

### **Note 6 - Risk Management**

The Facility is exposed to various risks of loss related to property loss, torts, and errors and omissions, as well as medical benefits provided to employees. The Facility has purchased commercial insurance for malpractice and general liability claims and employee medical benefit claims. The Facility is uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insured limits, regardless of when the claims are reported to the insurance carrier. There are no known, outstanding, or pending claims at December 31, 2013 and 2012.

# Pinecrest Medical Care Facility

## Notes to Financial Statements December 31, 2013 and 2012

### Note 6 - Risk Management (Continued)

The Facility records workers' compensation claims as they are processed by the claims administrator. The Facility has also purchased stop-loss insurance for claims that exceed \$350,000 at December 31, 2013 and 2012. Changes in the estimated liability for the years ended December 31, 2013 and 2012 were as follows:

|  | 2013              | 2012             |
|--|-------------------|------------------|
| Estimated liability - Beginning of year                    | \$ 80,000         | \$ 80,000        |
| Estimated claims incurred - Including changes in estimates | 248,437           | 100,080          |
| Claim payments   | (188,437)         | (100,080)        |
| Estimated liability - End of year                          | <u>\$ 140,000</u> | <u>\$ 80,000</u> |

### Note 7 - Combining Information

The statement of net position, statement of revenue, expenses, and changes in net position, and statement of cash flows have been presented in a single column presentation representing the total Facility. The fund detail is provided in the following condensed combining information.

#### Condensed Statement of Net Position at December 31, 2013

|   | Pinecrest<br>Medical Care<br>Facility | Whispering<br>Pines | Total                |
|---|---------------------------------------|---------------------|----------------------|
| Current assets                            | \$ 3,434,409                          | \$ 569,110          | \$ 4,003,519         |
| Assets limited as to use                  | 3,850,276                             | 494,677             | 4,344,953            |
| Property and equipment                    | 9,991,083                             | 680,496             | 10,671,579           |
| Total assets                              | <u>\$ 17,275,768</u>                  | <u>\$ 1,744,283</u> | <u>\$ 19,020,051</u> |
| Current liabilities                       | <u>\$ 1,449,441</u>                   | <u>\$ 282,882</u>   | <u>\$ 1,732,323</u>  |
| Net position - Invested in capital assets | \$ 9,991,083                          | \$ 680,496          | \$ 10,671,579        |
| Net position - Unrestricted               | 5,835,244                             | 780,905             | 6,616,149            |
| Total net position                        | <u>\$ 15,826,327</u>                  | <u>\$ 1,461,401</u> | <u>\$ 17,287,728</u> |

# Pinecrest Medical Care Facility

## Notes to Financial Statements December 31, 2013 and 2012

### Note 7 - Combining Information (Continued)

#### Condensed Statement of Net Position at December 31, 2012

|   | Pinecrest<br>Medical Care<br>Facility | Whispering<br>Pines | Total                |
|---|---------------------------------------|---------------------|----------------------|
| Current assets                            | \$ 2,980,618                          | \$ 972,407          | \$ 3,953,025         |
| Assets limited as to use                  | 3,991,538                             | 322,690             | 4,314,228            |
| Property and equipment                    | 10,549,387                            | 708,057             | 11,257,444           |
| Total assets                              | <u>\$ 17,521,543</u>                  | <u>\$ 2,003,154</u> | <u>\$ 19,524,697</u> |
| Current liabilities                       | <u>\$ 1,100,991</u>                   | <u>\$ 288,924</u>   | <u>\$ 1,389,915</u>  |
| Net position - Invested in capital assets | \$ 10,549,387                         | \$ 708,057          | \$ 11,257,444        |
| Net position - Unrestricted               | 5,871,165                             | 1,006,173           | 6,877,338            |
| Total net position                        | <u>\$ 16,420,552</u>                  | <u>\$ 1,714,230</u> | <u>\$ 18,134,782</u> |

#### Condensed Statement of Revenue, Expenses, and Changes in Net Position for the Year Ended December 31, 2013

|                                  | Pinecrest<br>Medical Care<br>Facility | Whispering<br>Pines | Total                |
|----------------------------------|---------------------------------------|---------------------|----------------------|
| Net service revenue              | \$ 9,775,961                          | \$ 3,807,504        | \$ 13,583,465        |
| Quality assurance supplement     | 1,514,425                             | -                   | 1,514,425            |
| Other operating revenue          | 26,708                                | -                   | 26,708               |
| Total operating revenue          | 11,317,094                            | 3,807,504           | 15,124,598           |
| Operating expenses               | 11,024,796                            | 4,018,271           | 15,043,067           |
| Depreciation                     | 866,643                               | 78,348              | 944,991              |
| Total operating expenses         | <u>11,891,439</u>                     | <u>4,096,619</u>    | <u>15,988,058</u>    |
| Operating loss                   | (574,345)                             | (289,115)           | (863,460)            |
| Nonoperating (loss) income       | <u>(19,880)</u>                       | <u>36,286</u>       | <u>16,406</u>        |
| Decrease in net position         | (594,225)                             | (252,829)           | (847,054)            |
| Net position - Beginning of year | 16,420,552                            | 1,714,230           | 18,134,782           |
| Net position - End of year       | <u>\$ 15,826,327</u>                  | <u>\$ 1,461,401</u> | <u>\$ 17,287,728</u> |

# Pinecrest Medical Care Facility

## Notes to Financial Statements December 31, 2013 and 2012

### Note 7 - Combining Information (Continued)

#### Condensed Statement of Revenue, Expenses, and Changes in Net Position for the Year Ended December 31, 2012

|                                     | Pinecrest<br>Medical Care<br>Facility | Whispering<br>Pines | Total         |
|-------------------------------------|---------------------------------------|---------------------|---------------|
| Net service revenue                 | \$ 10,479,787                         | \$ 3,693,586        | \$ 14,173,373 |
| Quality assurance supplement        | 1,578,891                             | -                   | 1,578,891     |
| Other operating revenue             | 28,713                                | -                   | 28,713        |
| Total operating revenue             | 12,087,391                            | 3,693,586           | 15,780,977    |
| Operating expenses                  | 10,981,885                            | 3,691,834           | 14,673,719    |
| Depreciation                        | 913,430                               | 81,054              | 994,484       |
| Total operating expenses            | 11,895,315                            | 3,772,888           | 15,668,203    |
| Operating income (loss)             | 192,076                               | (79,302)            | 112,774       |
| Nonoperating income                 | 112,073                               | 5,140               | 117,213       |
| Increase (decrease) in net position | 304,149                               | (74,162)            | 229,987       |
| Net position - Beginning of year    | 16,116,403                            | 1,788,392           | 17,904,795    |
| Net position - End of year          | \$ 16,420,552                         | \$ 1,714,230        | \$ 18,134,782 |

#### Condensed Statement of Cash Flows for the Year Ended December 31, 2013

|  | Pinecrest<br>Medical Care<br>Facility | Whispering<br>Pines | Total        |
|--|---------------------------------------|---------------------|--------------|
| Net cash provided by (used in)<br>operating activities       | \$ 448,913                            | \$ (99,402)         | \$ 349,511   |
| Net cash provided by noncapital<br>financing activities      | 57,243                                | -                   | 57,243       |
| Net cash provided by investing activities                    | 62,584                                | 3,091               | 65,675       |
| Net cash used in capital and related<br>financing activities | (308,338)                             | (145,187)           | (453,525)    |
| Net increase (decrease) in<br>cash and cash equivalents      | 260,402                               | (241,498)           | 18,904       |
| Cash and cash equivalents - Beginning<br>of year             | 2,252,190                             | 818,640             | 3,070,830    |
| Cash and cash equivalents - End of year                      | \$ 2,512,592                          | \$ 577,142          | \$ 3,089,734 |



# Pinecrest Medical Care Facility

## Notes to Financial Statements December 31, 2013 and 2012

### Note 7 - Combining Information (Continued)

#### Condensed Statement of Cash Flows for the Year Ended December 31, 2012

|  | Pinecrest<br>Medical Care<br>Facility | Whispering<br>Pines | Total               |
|--|---------------------------------------|---------------------|---------------------|
| Net cash provided by (used in)<br>operating activities       | \$ 1,113,466                          | \$ (57,319)         | \$ 1,056,147        |
| Net cash provided by noncapital<br>financing activities      | 24,941                                | -                   | 24,941              |
| Net cash (used in) provided by investing<br>activities       | (292,084)                             | 5,140               | (286,944)           |
| Net cash used in capital and related<br>financing activities | <u>(108,209)</u>                      | <u>(294,832)</u>    | <u>(403,041)</u>    |
| Net increase (decrease) in<br>cash and cash equivalents      | 738,114                               | (347,011)           | 391,103             |
| Cash and cash equivalents - Beginning<br>of year             | <u>1,514,076</u>                      | <u>1,165,651</u>    | <u>2,679,727</u>    |
| Cash and cash equivalents - End of year                      | <u>\$ 2,252,190</u>                   | <u>\$ 818,640</u>   | <u>\$ 3,070,830</u> |

## **Additional Information**

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# Pinecrest Medical Care Facility

## Combining Statement of Net Position December 31, 2013

|  | Pinecrest Medical<br>Care Facility | Whispering Pines    | Total                |
|--|------------------------------------|---------------------|----------------------|
| <b>Assets</b>                                |                                    |                     |                      |
| <b>Current Assets</b>                        |                                    |                     |                      |
| Cash and cash equivalents                    | \$ 1,750,079                       | \$ 82,465           | \$ 1,832,544         |
| Resident accounts receivable                 | 1,534,251                          | 446,692             | 1,980,943            |
| Other current assets                         | 150,079                            | 39,953              | 190,032              |
| Total current assets                         | 3,434,409                          | 569,110             | 4,003,519            |
| <b>Assets Limited as to Use</b>              | 3,850,276                          | 494,677             | 4,344,953            |
| <b>Property and Equipment - Net</b>          | 9,991,083                          | 680,496             | 10,671,579           |
| Total assets                                 | <u>\$ 17,275,768</u>               | <u>\$ 1,744,283</u> | <u>\$ 19,020,051</u> |
| <b>Liabilities and Net Position</b>          |                                    |                     |                      |
| <b>Current Liabilities</b>                   |                                    |                     |                      |
| Accounts payable                             | \$ 155,973                         | \$ 64,502           | \$ 220,475           |
| Estimated third-party payor settlements      | 220,750                            | -                   | 220,750              |
| Accrued liabilities and other:               |                                    |                     |                      |
| Accrued compensation and related liabilities | 373,104                            | 136,037             | 509,141              |
| Accrued compensated absences                 | 410,531                            | 82,095              | 492,626              |
| Other accrued liabilities                    | 289,083                            | 248                 | 289,331              |
| Total current liabilities                    | 1,449,441                          | 282,882             | 1,732,323            |
| <b>Net Position</b>                          |                                    |                     |                      |
| Net investment in capital assets             | 9,991,083                          | 680,496             | 10,671,579           |
| Unrestricted                                 | 5,835,244                          | 780,905             | 6,616,149            |
| Total net position                           | 15,826,327                         | 1,461,401           | 17,287,728           |
| Total liabilities and net position           | <u>\$ 17,275,768</u>               | <u>\$ 1,744,283</u> | <u>\$ 19,020,051</u> |

# Pinecrest Medical Care Facility

## Combining Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2013

|   | Pinecrest Medical<br>Care Facility | Whispering Pines    | Total                |
|---|------------------------------------|---------------------|----------------------|
| <b>Operating Revenue</b>                |                                    |                     |                      |
| Net service revenue                     | \$ 9,775,961                       | \$ 3,807,504        | \$ 13,583,465        |
| Quality assurance supplement            | 1,514,425                          | -                   | 1,514,425            |
| Other operating revenue                 | 26,708                             | -                   | 26,708               |
| Total operating revenue                 | 11,317,094                         | 3,807,504           | 15,124,598           |
| <b>Operating Expenses</b>               |                                    |                     |                      |
| Salaries                                | 6,552,082                          | 2,854,447           | 9,406,529            |
| Other expenses                          | 5,339,357                          | 1,242,172           | 6,581,529            |
| Total operating expenses                | 11,891,439                         | 4,096,619           | 15,988,058           |
| <b>Operating Loss</b>                   | (574,345)                          | (289,115)           | (863,460)            |
| <b>Nonoperating (Loss) Income</b>       |                                    |                     |                      |
| Investment (loss) income                | (123,114)                          | 3,091               | (120,023)            |
| Contributions                           | 57,243                             | -                   | 57,243               |
| Other income                            | -                                  | 33,195              | 33,195               |
| Rent income                             | 45,991                             | -                   | 45,991               |
| Total other (loss) income               | (19,880)                           | 36,286              | 16,406               |
| <b>Decrease in Net Position</b>         | (594,225)                          | (252,829)           | (847,054)            |
| <b>Net Position - Beginning of year</b> | 16,420,552                         | 1,714,230           | 18,134,782           |
| <b>Net Position - End of year</b>       | <u>\$ 15,826,327</u>               | <u>\$ 1,461,401</u> | <u>\$ 17,287,728</u> |

# Pinecrest Medical Care Facility

## Schedule of Net Service Revenue

|                                      | Year Ended                  |                             |
|--------------------------------------|-----------------------------|-----------------------------|
|                                      | December 31,<br>2013        | December 31,<br>2012        |
| <b>Skilled Nursing Services</b>      |                             |                             |
| Daily net room revenue:              |                             |                             |
| Medicaid                             | \$ 7,737,803                | \$ 7,923,401                |
| Medicare                             | 424,677                     | 410,841                     |
| Private pay and other                | <u>1,638,992</u>            | <u>1,458,929</u>            |
| Total daily net room revenue         | 9,801,472                   | 9,793,171                   |
| Ancillary revenue:                   |                             |                             |
| Pharmacy                             | 129,486                     | 145,448                     |
| Therapy services                     | 968,151                     | 1,039,726                   |
| Other ancillary services             | <u>17,683</u>               | <u>24,035</u>               |
| Total ancillary revenue              | <u>1,115,320</u>            | <u>1,209,209</u>            |
| Net skilled nursing services revenue | 10,916,792                  | 11,002,380                  |
| Revenue deductions:                  |                             |                             |
| Provision for contractual discounts  | (641,523)                   | (862,031)                   |
| Bad debt expense                     | <u>(381,363)</u>            | <u>(19,810)</u>             |
| Total revenue deductions             | <u>(1,022,886)</u>          | <u>(881,841)</u>            |
| Net skilled nursing services revenue | 9,893,906                   | 10,120,539                  |
| Whispering Pines service revenue     | 3,821,416                   | 3,693,586                   |
| Certified Public Expenditures        | 20,219                      | 243,937                     |
| Prior cost report settlements        | <u>(152,076)</u>            | <u>115,311</u>              |
| <b>Net Service Revenue</b>           | <b><u>\$ 13,583,465</u></b> | <b><u>\$ 14,173,373</u></b> |

# Pinecrest Medical Care Facility

## Schedule of Operating Expenses

|                                  | Year Ended December 31 |                     |                      |                      |
|----------------------------------|------------------------|---------------------|----------------------|----------------------|
|                                  | 2013                   |                     |                      | 2012                 |
|                                  | Salaries               | Other               | Total                | Total                |
| Fringe benefits                  | \$ -                   | \$ 1,871,700        | \$ 1,871,700         | \$ 1,753,170         |
| Administration                   | 480,718                | 303,181             | 783,899              | 777,179              |
| Plant operations                 | 379,189                | 261,027             | 640,216              | 607,195              |
| Utilities                        | -                      | 482,954             | 482,954              | 461,474              |
| Laundry                          | 174,597                | 32,916              | 207,513              | 209,561              |
| Housekeeping                     | 269,511                | 38,727              | 308,238              | 311,974              |
| Dietary                          | 582,069                | 396,275             | 978,344              | 951,208              |
| Medical director                 | -                      | 47,666              | 47,666               | 39,996               |
| Diversional therapy              | 155,933                | 20,356              | 176,289              | 168,177              |
| Other ancillary services         | -                      | 55,041              | 55,041               | 30,481               |
| Therapy services                 | 341,394                | 66,285              | 407,679              | 421,446              |
| Pharmacy                         | -                      | 165,821             | 165,821              | 144,195              |
| Nursing                          | 4,168,671              | 330,770             | 4,499,441            | 4,536,070            |
| Whispering Pines services        | 2,854,447              | 414,785             | 3,269,232            | 3,017,013            |
| Eden Alternative day care center | -                      | 41,193              | 41,193               | 118,652              |
| Quality assurance provider tax   | -                      | 1,107,841           | 1,107,841            | 1,125,928            |
| Depreciation                     | -                      | 944,991             | 944,991              | 994,484              |
| 2013 totals                      | <u>\$ 9,406,529</u>    | <u>\$ 6,581,529</u> | <u>\$ 15,988,058</u> |                      |
| 2012 totals                      | <u>\$ 9,244,859</u>    | <u>\$ 6,423,344</u> |                      | <u>\$ 15,668,203</u> |

March 14, 2014

To the Board of Trustees  
Pinecrest Medical Care Facility

We have audited the financial statements of Pinecrest Medical Care Facility (the "Facility") as of and for the year ended December 31, 2013 and have issued our report thereon dated March 14, 2014. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under AU 265

Section II - Communications Required Under AU 260

Section I includes any deficiencies we observed in the Facility's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the Facility's accounting policies and internal control.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to those charged with governance of Pinecrest Medical Care Facility.

We would like to take this opportunity to thank the Facility's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of those charged with governance and management of Pinecrest Medical Care Facility and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



J. Eric Conway, CPA, FHFMA

## **Section I - Communications Required Under AU 265**

In planning and performing our audit of the financial statements of Pinecrest Medical Care Facility as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Facility's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiency in the Facility's internal control to be a material weakness:

**Segregation of Duties** - The chief financial officer (CFO) has the ability to prepare journal entries, make investment transfers, sign checks, enter invoices, and create new vendors. In addition, the CFO and biller have access to each area of the general ledger system which includes accounts receivable, accounts payable, payroll, and the general ledger and there is no independent review of journal entries. Without adequate segregation of duties, there is an increased risk of unauthorized transactions or errors in processing and recording transactions that could result in a misstatement of the financial statements. We recommend some of the tasks mentioned above be assigned to other, more independent staff with limited access to the general ledger system or additional review procedures be performed to ensure proper oversight is provided.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Facility's internal control to be significant deficiencies:



**Contractual Adjustments** - Revenue and related accounts receivable balances for certain commercial insurance payors were identified as being recorded at the private pay rate and not initially adjusted to net realizable value. Proper accounting would be to adjust the revenue and related accounts receivable during initial recognition, but this step was not completed, resulting in a proposed adjustment identified in attachment #1 below. The result is impacting the interim financial reporting each month by reporting the receivable and revenue as overstated. The adjustment to net realizable value is performed when cash receipt of the accounts receivable occurs. In future years, we would expect more third-party payors to negotiate various payment plans which may lead to requiring more attention to the valuation of accounts receivable.

**Third-party Payor Settlements** - During 2013, Medicaid auditors performed an analysis on the Facility's filed cost report for the year ended December 31, 2011. The audit results were communicated in October 2013, identifying a reduction of reimbursable expenses, which will have an impact on reimbursement for periods beginning on October 1, 2012. The estimated impact through December 31, 2013 totaled \$158,000. Because the settlement liability was estimable, it should have been recognized in accounting records as of December 31, 2013 and failure to initially report a settlement liability is the cause of the deficiency. Interim financial reporting once the settlement liability was estimable would have been inaccurate. Ultimately, an adjustment was made to properly record the transaction and is presented in the financial statements as of December 31, 2013. In the future, when settlements are estimable and probable, we recommend reporting the amounts in the accounting records.

## **Section II - Communications Required Under AU 260**

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated October 30, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Pinecrest Medical Care Facility. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated January 2, 2014.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Pinecrest Medical Care Facility are described in Note I to the financial statements.

As described in Note I, the Facility changed accounting policies related to GASB No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The statement has been implemented during 2013, but did not have a material effect on the Facility's financial statements.

We noted no transactions entered into by the Facility during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the allowance for doubtful accounts and the estimate of Medicaid settlement activity, including cost report settlements, Certified Public Expenditures (CPE), and quality assurance supplement (QAS) revenue.

Management's estimate of the allowance for doubtful accounts of \$505,000 is based on uncollectible accounts receivable outstanding as of December 31, 2013. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of \$158,000 for prior year Medicaid cost report settlements due to the State of Michigan as of December 31, 2013 is based on communications between Medicaid auditors and expectations of actual settlement activity in the future for filed Medicaid cost reports. We evaluated the key factors and assumptions used to develop the Medicaid cost report settlement in determining that it is reasonable in relation to the financial statements as a whole.

Management's estimate of the CPE revenue of \$20,219 and related third-party payor settlements received of \$5,924 for 2013, with no outstanding third-party payor settlement for these amounts at December 31, 2013, are based on Medicaid census days, applicable Medicaid room and board rates, and identified costs associated with caring for those Medicaid residents. We evaluated the key factors and assumptions used to develop the CPE revenue and related third-party payor settlement in determining that they are reasonable in relation to the financial statements as a whole.

Management's estimate of the quality assurance supplement revenue of \$1,514,425 and related third-party payor settlement payable of \$62,750 is based on the number of Medicaid days of service and the respective rates for the year ended December 31, 2013. We evaluated the key factors and assumptions used to develop the quality assurance supplement revenue and related third-party payor settlement in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

A misstatement detected as a result of audit procedures was corrected by management, which increased the estimated third-party payor settlement liability and reduced net service revenue by \$158,000. The attached schedule (Attachment #1) summarizes uncorrected misstatements of the financial statements. Management has determined the effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### ***Significant Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Facility, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated March 14, 2014.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Facility's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## Attachment #I

**Client: Pinecrest Medical Care Facility**

**Y/E: December 31, 2013**

### SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

| Ref. #                         | Description of Misstatement   | Current Assets     | Long-term Assets | Current Liabilities | Long-term Liabilities | Net Position | Revenue            | Expenses    | Change in Net Position |
|--------------------------------|---|--------------------|------------------|---------------------|-----------------------|--------------|--------------------|-------------|------------------------|
| <b>FACTUAL MISSTATEMENTS:</b>  |   |                    |                  |                     |                       |              |                    |             |                        |
| A1                             |   |                    |                  |                     |                       |              |                    |             |                        |
| A2                             |   |                    |                  |                     |                       |              |                    |             |                        |
| <b>JUDGMENTAL ADJUSTMENTS:</b> |   |                    |                  |                     |                       |              |                    |             |                        |
| B1                             | Overstatement of resident accounts receivable and related revenue due to not reporting the contractual adjustment for certain payors on a gross balance of outstanding resident accounts receivable of \$76,000 as of December 31, 2013 | \$ (38,000)        |                  |                     |                       |              | \$ (38,000)        |             | \$ (38,000)            |
| B2                             |   |                    |                  |                     |                       |              |                    |             |                        |
| <b>PROJECTED ADJUSTMENTS</b>   |   |                    |                  |                     |                       |              |                    |             |                        |
| C1                             |   |                    |                  |                     |                       |              |                    |             |                        |
| C2                             |   |                    |                  |                     |                       |              |                    |             |                        |
| Total                          |   | <u>\$ (38,000)</u> | <u>\$ -</u>      | <u>\$ -</u>         | <u>\$ -</u>           | <u>\$ -</u>  | <u>\$ (38,000)</u> | <u>\$ -</u> | <u>\$ (38,000)</u>     |

**PASSED DISCLOSURES**

D1  
D2